

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 /103 W
-----025604 010549Z /21

R 311525Z JUL 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 4576
TREASURY DEPT WASHDC

UNCLAS ROME 14000

E.O. 11652: N/A
TAGS: ECON EFIN, IT
SUBJ: REACTION TO PUBLICATION OF IMF LETTER CONCERNING ITALIAN
ECONOMY

1. /SUMMARY "/. "LA STAMPA" PUBLISHED ON JULY 24 TEXT OF LETTER FROM ALLEN WHITTOME, IMF DIRECTOR FOR EUROPE, CONTAINING WHAT IS PURPORTED TO BE CONCLUSIONS ON ITALIAN ECONOMIC SITUATION. UNIONS RESPONDED IMMEDIATELY AND UNFAVORABLY TO PORTION OF LETTER REFERRING TO CHANGES IN SCALA MOBILE. PORTIONS OF WHITTOME LETTER DEALING WITH MEASURES AGAINST TAX EVASION AND NEW INVESTMENTS WERE FAVORABLY CONSIDERED BY UNIONS. LITTLE REACTION FROM OTHER SECTORS THAN UNIONS HAS BEEN REPORTED." END SUMMARY".

2. LETTER FROM WHITTOME TO GOI LEAKED TO " LA STAMPA". LETTER SUGGESTS THREE MAIN AREAS FOR EARLY ACTION. FIRST , THE PUBLIC SECTOR RQUIRES BETTER BUDGET CONTROL AND THE REDUCTION OF THE DEFICIT OF THE ENLARGED PUBLIC SECTOR, THROUGH INCREASED TAXES AND EXPENDITURE CUTS. THIS DEFICIT SHOULD NOT EXCEED 14 PERCENT OF GDP IN 1979. SECOND, INVESTMENTS NEED TO BE INCREASED PARTICULARLY IN AGRICULTURE, CONSRUCTION AND ENERGY. THIRD, THE COST OF LABOR MUST BE BROUGHT INTO LINE WITH OTHER INDUSTRIAL COUNTRIES WHICH WOULD REQUIRE A PERIOD OF STABILITY IN TERMIS OF REAL WAGES. TO HELP ACHIEVE THELATTER, FOUR POSSIBLE ALTERNATIVE
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CHANGES ARE SUGGESTED IN THE SCALA MOBILE. THESE ARE :
(1) SUBSTITUTION OF MINIMUM WAGES LINKED TO COST OF LIVING FOR PRESENT SYSTEM, (2) A CEILING ON WAGE INCREASES THROUGH THE SCALA MOBILE FOR A STATED PERIOD,
(3) CHANGES IN THE "BASKET " USED TO CALCULATE THE INCREASES OR, (4) ANNUAL RATHER THAN QUARTERLY SALARY ADJUSTMENTS.

3. UNIONS HAVE DEFENDED SCALA MOBILE. MACARIO OF CISL TERMED IT DEFENSE OF WORKERS AGAINST INFLATION IN PART BECAUSE GOVERNMENT AND EMPLOYERS HAD TO CONSIDER WHAT EFFECTS VARIOUS POLICIES MIGHT HAVE ON SCALA MOBILE. NUANCED STATEMENTS, HOWEVER, INDICATE THAT THERE MIGHT BE MORE UNION FLEXIBILITY IN TERMS OF CONTAINING CONTRACTUAL SALARY INCREASES.

4. UNION REACTIONS TO LETTER AS A WHOLE WERE MIXED BUT NOT TOO UNFAVORABLE. PORTIONS CALLING FOR ACTIVITY AGAINST TAX EVASION AND INCREASED INVESTMENTS WERE PRAISED. MACARIO (CISL) CONSIDERED CRITICISM OF SCALA MOBILE TO BE RITUAL AND MARGINAL AND SAID HERAT OF RECOMMENDATIONS WAS CALL FOR NEW ECONOMIC POLICIES. DIDO (CGIL) CONSIDERED REPORT SELF-CONTRADICTIONARY IN THAT IT OPENED BY CALLING FOR REFORM OF STRUCTURAL WEAKNESSES OF ITALIAN ECONOMY BUT THEN CONCENTRATED ON THE COST OF LABOR. DIDO ALSO REMARKED THAT THE CONTENTS SEEM SUGGESTED BY SEGMENTS OF ITALIAN GOVERNMENT HOPING TO HAVE THESE POLICIES IMPOSED INTERNATIONALLY.

5. NON-UNION REACTION WAS LIMITED, ALTHOUGH THE LIBERAL PARTY SECRETARY ZANONE PRAISED THE LETTER AS AN EXCELLENT ANALYSIS OF ITALIAN SITUATION WITH PROviso SCALA MOBILE CANNOT BE CONSIDERED AUTONOMOUS CAUSE OF INFLATION. NINO ANDREATTA (ECONOMIST AND DC SENATOR) WROTE FAVORABLY OF THE PLAN IN JULY 26 "LA STAMPA " BUT NOTED THE TIME SEEMED WRONG FOR SERIOUS NEGOTIATIONS WITH THE FUND, SINCE ITALY WAS RUNNING UNCLASSIFIED

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BALANCE OF PAYMENTS SURPLUSES.GARDNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PUBLICATIONS, ECONOMIC CONDITIONS, LABOR POLICY LINE
Control Number: n/a
Copy: SINGLE
Draft Date: 31 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ROME14000
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780314-0047
Format: TEL
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978073/aaaaacgo.tel
Line Count: 95
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 94968a6e-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1914836
Secure: OPEN
Status: NATIVE
Subject: REACTION TO PUBLICATION OF IMF LETTER CONCERNING ITALIAN ECONOMY
TAGS: ECON, EFIN, IT, IMF
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/94968a6e-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014